V Recent balance sheets (continued)

Long term Investments (continued)

- We have not seen financial statements for the above investment in Suez Steel. We are advised, however, that the Company is profitable due, at least in part, to it being located near the Port of Suez, and close to new tourist developments. The Group estimates the value of its interest at LE 100 million.

- The investment of LE 120 million in 49% of Arab Cast Iron & Steel Factory (ACISF). We have not had sight of any financial statements for this company. However, we understand that the Group is negotiating a sale of its interest in ACISF and estimates this will realise approximately LE 80 million. If a sale at this amount is achieved, this will result in a write-off of LE 40 million.

- We understand that the investment portfolio is in fact the buy-back of Lakah's own shares. This should be treated as a reduction in net equity. If the shares are not resold within one year, this will need to be treated as a reduction in share capital.

- The Investment in Medical Equipment Activities is equipment transferred to a joint venture partner, Seastar Industries Inc, for sale outside Egypt. The Group receives 60% of the JV income. The Group has invested US$90 million of equipment in the JV, and the JV has hired out this equipment. Since the commencement of the Agreement in late 1999, the Group has received US$12 million and is due to receive further income during 2001 of US$6 million, and is confident of a continued revenue stream from the investment in future years.

V Recent balance sheets (continued)

Fixed Assets

	31 December 1999 LE	31 December 2000 LE
Land	151,536	208,017
Buildings	62,386	52,721
Machinery & Equipment	205,925	85,048
Tools & Supplies	1,986	1,083
Furniture & Equipment	6,495	4,630
Vehicles	43,304	19,006
	471,642	370,505

- The principal items are the IIC detergent factory (LE 79 million); the ICC light bulb factory (LE 49 million); land at El Korba held by MCMC (LE 40 million) on which it had been planned to build an eight storey clinic; land and buildings held by Quest (LE 18.5 million); Universal Trucking's land (LE 43 million); and LE 92 million of various land holdings held by Holdings which been transferred from four companies owned by Ramy and Michel Lakah as part of efforts to enhance the equity base of the Group. We understand that these land transfers have not been registered at the State Land Registry and therefore legal title (as opposed to beneficial ownership) probably remains with the vendor companies (see Section VIII). We have not seen any valuations of these properties.

Projects under Construction

- This is represented by the amount invested in the renovation of the Acryline forming factory in the balance sheet of Quest. The total estimated cost is LE 12.4 million but its completion is subject to availability of funds.

V Recent balance sheets (continued)

Goodwill

- The movement on Goodwill between 1999 and 2000 appears to be as follows:

	LE'm
Opening Balance	252
Amortisation to Profit and Loss	(6)
Written off to retained earnings	(13)
Written off against loans from R&M Lakah and companies owned by them	(137)
Other debtors (see above)	(45)
Sundry difference	(1)
	50

- We understand that the Capital Markets Authority required a write-down of goodwill to LE 50 million. It appears that to compensate for the large write-off, R& M Lakah transferred the properties (LE 92 million) from four of the companies owned by them, and the loan from them to MidWest, and then wrote these liabilities off, thereby offsetting the charge for amortisation of goodwill.

- The remaining amount of LE 45 million has been included in Other Debtors (see above).

V Recent balance sheets (continued)

Inventories

- Inventories are stated at LE 533 million (LE 431 million in 1999). Of this balance, LE 301 million is represented by medical equipment. LE 20.0 million of medical equipment was destroyed in the earthquake in Turkey, against which a provision of LE 20 million has been raised.

- Inventories totalling LE 183 million were resold to suppliers at a 10% discount in Q1 2001. The loss was not provided in the 2000 accounts but will be recognised in Q1 2001 results.

- The new medical equipment held by TMSE totals LE 63.5 million. Some of this was purchased during 1997 and 1998 and a provision of approximately LE 7 million may be required against this slow-moving inventory. In Medequip LE 30.9 million of medical equipment represents 1999 stock and LE 28 million of material and supplies relate to 1999.

- From our review of other Sundry Inventories it appears that there is a need for further provisions of LE 10 million.

Work in progress

- All work in progress relates to Medequip and/or Quest. The majority of projects in progress are for the Ministry of Health. All the projects are local. Work in progress is being completed on these projects which the Group is confident that funds for payment of the work are available.

V Recent balance sheets (continued)

Creditors and other short term balances

	31 December 1999 LE	31 December 2000 LE	Comments
Notes Payable	4,199	108,595	Large increase reflecting build-up of payables. LE 18.1m of the increase is the detergent factory,
Creditors	12,610	9,520	
Suppliers	22,205	7,413	
Bonds interest accrual	37,375	37,375	Accrued interest on local bonds.
Other credit balances	-	3,760	
	76,390	166,663	

Provisions

- Provisions of LE 22.1 million are in respect of corporate and other taxes.
- We summarise at Appendix D a summary of the position regarding agreement on each year's tax assessments with the tax authorities. This is based on discussions with the Group's Tax consultant. This has revealed a shortfall in the tax provision of LE 12.35 million at 31 December 2000.
- We attach at Appendix E a list of legal cases involving the Group. On the basis of a discussion of the cases with Ramy Lakah, we estimate that an additional provision of LE 6 million should be made to cover the anticipated exposure under these cases.

V Recent balance sheets (continued)

Long Term Loans

Bank	Company	31 December 2000 LE	Comments
Banque du Caire	Medequip	63,033	Includes US$ loan LE22.1m and local currency loan LE40.9m.
National Bank of Eygpt	Medequip	153,572	Comprises US$ loan LE 25.7m and local currency loan LE127.9m.
Egyptian Saoudi Finance Bank	Medequip	32,164	
Arab African International Bank	Medequip	27,001	
Society Arabe International De Banque	Medequip	17,554	
Banque du Caire	TMSE	90,864	
Export Development Bank of Egypt	TMSE	20,070	
International Islamic Bank	TMSE	16,067	
Cairo Barclays	Amitrade	20,007	
Egyptian Saoudi Finance Bank	Amitrade	35,110	
International Islamic Bank	Amitrade	26,069	
International Islamic Bank	MCMC	17,581	
Banque du Caire	Holding Co	76,069	
		595,161	

- As security, the local banks hold various pledges over inventories, receivables and fixed assets. We have not reviewed these agreements in detail or the validity of the underlying security. The above reflects the rescheduling of local bank loans under the Framework Agreement, with all repayments of interest and principal deferred until the end of 2002. Further details are included at Appendix C.

V Recent balance sheets (continued)

Bonds

- The two local bonds are:
  - The LE 250 million bond issued by ASF at 11.0% plus a 0.5% guarantee fee. The bonds mature in 2005 and are guaranteed by Banque du Caire, against which Banque du Caire are holding blocked time deposits. At December 2000 these totalled LE 155 million.
  - The LE 400 million bond issued by the holding company at 11.0% plus 0.5% guarantee fee. The bonds mature in 2006 and are also guaranteed by Banque du Caire. As security Banque du Caire are holding LE 191m of bills receivable related to the sale of ASF.

Creditors' Long Term Balances

- This comprises the US$100 million Eurobond issue valued at 31 December 2000 LE 340 million and LE 8 million long term notes payable.

Shareholders' funds

	31 December 1999 LE	31 December 2000 LE	Comments
Share capital	1,499,880	1,499,880	
Legal Reserve	-	11,201	
Retained Earnings	-	179,987	
Net Loss	172,126	(299,150)	See Section IV
Total shareholders' funds	1,672,006	1,391,918	

V Recent balance sheets (continued)

Summary of Possible adjustments to the 2000 consolidated Balance Sheet

- The various additional provisions that we consider may be required can be summarised as follows:

	Millions LE
Medequip short term balances	30
Amitrade Receivables and other debit balances	10
Investment in Arab Cast Iron & Steel	40
Provision for slow moving stock	7
Other inventories	10
Tax provision	13
Legal provision	6
	116

- The potential impact on net assets is the total of these provisions, together with the effect of the buy-back of shares totalling LE 134 million, and the write-off of the sundry debtor of LE 45 million associated with the write-down of goodwill. The total effect of these adjustments would be to reduce net assets by LE 295 million from LE 1,392 million to LE 1,097 million.

- This assumes that the trade receivable are collected in line with the Group's expectations or, if not, the equipment can be repossessed and resold for substantially similar amounts. It also assumes that the debt from MidWest Airline can be collected as set out above.

VI Projected results (continued)

Preparation of the projections

- Since mid-2000, management has not routinely prepared profit forecasts for the Group companies.
- The basis for the Group's integrated forecasts is a spreadsheet model, at company level and completed by the management teams of the respective companies with Mr Murphy's support and assistance.
- The preparation of these projections has been constrained by the inexperience of management and staff in preparing projections, particularly in a loss-making situation.
- The Group has not yet produced formal management accounts for the first quarter of 2001. However, we understand that the projections for the first quarter of 2001 are based upon actual results for the period. In the absence of accounts, however, we have not been able to confirm this.
- We have commented elsewhere upon the Group's financial management and accounting systems.
- We have entered the Group's data into our own spreadsheet model and agreed the result to the Group's projections.
- Our work on the projections has included:
  - test checking the mathematical accuracy of the projections;
  - a review of the principal assumptions in discussion with management and by comparison with recent actual trends in results and information on the markets served by the Group; and
  - identification of the key apparent risks in the projections.

VI Projected results (continued)

Preparation of the projections (continued)

- We have accordingly prepared an aggregation at Group level, adjusted where practicable for known inter-company transactions such as management charges from Lakah Holdings. In practice, there is limited inter-company trading and differences arising from the use of an aggregation are likely to be smaller than differences arising from other uncertainties within the projections.

- The projections on which we have based this Report exclude the effect of UN contracts. The Group has subsequently provided us with a revision of the projections to demonstrate the potential impact of the securing of US$59 million of orders under the UN Oil For Food Programme, upon which we comment later in this Section.

VI Projected results (continued)

Assumptions in the profit projections

Area	Assumptions made by management	Comments	Assessment
Sales volumes	Sales in the Medical division will continue at broadly the rate experienced in the second part of 2000. Sales in IIC will increase as the business continues to develop.	Management's assumptions are reasonable. However, there are very significant uncertainties, principally in relation to the Egyptian economy, the impact of which is likely to greatly exceed the impact of any errors or simplifications in the projections.	Reasonable but uncertain
Sales prices	Prices for all major products will remain broadly stable, although some margin reduction will be necessary to address local competition.	Management assumptions appear reasonable. The specialist nature of the markets in which the Group operates does not expose it to heavy price competition.	Reasonable
Seasonality	Quarterly projections include seasonal adjustments.		Reasonable
Imported goods and raw material costs	Prices are expected to rise in line with the fall in the exchange rate LE/US$. However, all importers will be equally affected and gross margin will not be affected; cost increases can be passed on to customers.	Goods and services in the Medical division are not subject to major price competition and it should be possible to pass on increases in imported goods and raw materials. It may be less easy to pass on material price increases in IIC.	Reasonable
Labour costs and Overheads	Sales, general and administrative expenses ("SG&A") will be reduced from the level experienced in 2000.	Management's assumptions are probably somewhat optimistic. However, this is not a major vulnerability for the Group.	Small contingency
Contingency	In Medequip and TMSE, the Group has included against unforeseen events of any kind.	This provides considerable comfort for the projections, as sales would need to fall considerably to utilise these contingencies.	Prudent
Interest rates	Interest rates are expected to remain unchanged.	Rates on the bonds that comprise the majority of the Group's borrowings are fixed. Variable interest rates may increase depending upon the Government's response to economic issues.	Small contingency
Exchange rates	For the purposes of the projections, a fixed rate of LE 4.0/US $1 has been assumed, although the management are concerned at the continued depreciation of the Egyptian pound.	This is a major vulnerability. Although the exchange rate LE/US$ is expected to continue to decline, the rate and extent of decline is uncertain. Gross margin and sales may not be significantly impacted by movements in the exchange rate but the Group has US$100 million of borrowings and coupons of US$12 million payable each year. The continued fall in the LE against the US$ will increase substantially the cost of both coupon and ultimately principal. (In the past 12 months the fall has been over 20%.)	Vulnerable

VI Projected results (continued)

Assumptions in the profit projections (continued)

- Our overall view of the assumptions is:
  - Revenue assumptions have been prepared on a prudent basis within the limits of the information available
  - Assumptions as to costs of sales and overheads are reasonable
  - Substantial contingencies have been included in the main trading projections, which provides significant additional comfort
  - Cash flow assumptions are based upon the fundamental premise that liquidity in the Egyptian economy and the present shortage of US dollars will ease from Q4 2001.
- The revenue projections assume continuation of the existing medical business at a level slightly below that in the latter part of 2000.
- There are a number of significant opportunities and upsides that may significantly improve revenues and gross profits. These include the following:
  - Medequip and TMSE are bidding for contracts to supply medical equipment under the UN "Oil for Food" programme. We understand that the Group has won one major contract, and expects to win others shortly.
  - Medequip and TMSE have identified other opportunities in the international markets, although these are at least partly dependent upon easing of the political atmosphere.
  - The Group has been approached regarding an agency for the Egypt, Middle East and North West Africa region for another major medical equipment manufacturer, and discussions are in progress.

VI Projected results (continued)

Assumptions in the profit projections (continued)

  - A budget has been approved for Government spending from 1 July 2001. This includes LE 1.4 billion for healthcare spending and the Group anticipates that it may be able to win work of a value of LE 350 million.
  - The Group has been invited to participate in a project to build schools on behalf of the Egyptian Government, under a "Capital Leasing' arrangement and using fast-track utility construction techniques developed in Medequip. Contractual and financing arrangements are being discussed.

- The Egyptian economy is the largest cause of vulnerability in the projections. We have commented in Section III in detail on the economic issues.
- Official statistics do not reveal any major difficulties in the economy. However, anecdotal evidence from our discussions with businessmen, bankers and other professionals suggest that the economy is at present in recession and suffering a very sharp liquidity squeeze.
- We are informed that the "open market" rate for US dollars is presently in the range LE 4.12/US$1, as compared to the official rate of LE 3.93/US$1. It is reported that very limited supplies of US dollars are available at the official rate.
- The cash flow projections assume that a large part of the investment in receivables, inventory and work in progress will be released during 2001 and 2002 as budgetary pressures on the Government ease and liquidity in the private sector improves. This is a key risk in the cash flow projections.

VI Projected results (continued)

Summary of the projected results

	Actual	Projected		
	Year ended 31 December 2000 LE millions	Year to 31 December 2001 LE millions	Year to 31 December 2002 LE millions	Comments and main issues
Turnover	468	520	422	2001 includes LE 160m of inventory resold to suppliers in Q1 2001 to be paid over 18 months commencing in Q3 2001. Excluding this, Turnover is projected at 75% of 2000. Medequip and TMSE represent 80% of the projected business, and ICC the majority of the remainder. MCMC and ICC (the bulb factory) are insignificant.
Gross profit percentage	29%	13%	25%	
Gross profit	**140**	**68**	**105**	2001 Gross profit is distorted by inclusion of the loss on resold stock. Excluding this projected margins in 2001 are as 2002.
Overheads	(103)	(42)	(44)	Both Medequip and TMSE have reduced overheads over recent months.
Provisions	(229)	(32)	(21)	These are contingency provisions. They provide considerable additional prudence to the projections.
Other Income		5	6	
Capital gain	64	0	0	
Profit/(loss) before interest and taxation	**(128)**	**(5)**	**46**	
Interest (net of income)	(177)	(192)	(176)	See below for analysis.
Taxation	0	0	0	
Profit/(loss) retained	**(305)**	**(197)**	**(130)**	

Note: the above figures are presented on an aggregated basis, including (for ease of comparison) the actual result for y/e 31/12/2000. These are accordingly slightly different from the consolidated results presented in the audited financial statements. Turnover for 2000 includes LE 11 million of Inter-Group.

VI Projected results (continued)

Summary of the projected results (continued)

- We briefly comment below on the projections for the major trading companies in the Group, Medequip, TMSE and IIC. In overview, at a Group level:
  - The turnover and gross profit projections appear reasonable, even prudent.
  - Projections for overheads are reasonable.
  - Projected provisions are in respect of contingencies, estimated at 10% of trading sales. These appear reasonable, even prudent, insofar as provisions for issues arising in the course of trading are concerned. It is less certain whether they are sufficient for provisions against bad and doubtful debts, and against inventory/work in progress.
  - Estimated interest costs are dependent upon the rate at which debt will be paid down from the proceeds of receivables and inventory, which we comment upon below.
- At EBIT level the Group is projected to be trading at a broadly break-even level in 2001 and 2002. However, after interest further substantial losses are projected. The Group therefore needs the UN Oil for Food business and an upturn in Government business to return to profitability.
- We comment in the following sections on the projections for the main operating businesses.

VI Projected results (continued)

Summary of results – Medequip

	Actual	Projected		
	Year ended 31 December 2000 LE millions	Year to 31 December 2001 LE millions	Year to 31 December 2002 LE millions	Comments and main issues
Turnover	272	260	230	2001 includes LE 60m of materials resold back to suppliers at a 10% discount. The projection reflects the approved Ministry of Health Budget for 2001 and 2002 and is based on the company's project book Included in projected Provisions is a contingency of LE 26m in 2001 and LE 11.5m in 2002 to cover possible shortfalls in Revenue
Gross profit percentage	36%	17%	25%	2001 gross profit reduced by LE 6m loss on resold materials. Excluding this 25% margin assumed
Gross profit	99	43	58	
Overheads	(33)	(25)	(24)	Impact of further cost reductions
Other income	6	5	6	
Provisions	(48)	(26)	(12)	Contingency provision (see above)
Capital gain	0	0	0	
Profit/(loss) before interest and taxation	24	(3)	28	
Interest expense (net of income).	(36)	(43)	(24)	Interest on local bank loans and interest on deposits
Taxation	0	0	0	
Profit/(loss) retained	(12)	(46)	4	

VI Projected results (continued)

Summary of results – Medequip (continued)

- Of the loss in 2001 LE 6 million arises from the resale of materials to suppliers that were purchased against contracts that are no longer proceeding.
- Medequip has not assumed any substantive improvement in the local economic conditions in its projections. The turnover projections are modest and are below that achieved in 2000.
- The projections reflect the Ministry of Health 2001/2002 healthcare budget and the projects which Medequip expect to complete. Ramy Lakah is confident that adequate funding will be available for the healthcare budget.
- However, to be prudent the projections include contingencies of LE 26 million and LE 11.5 million.

VI Projected results (continued)

Summary of results – TMSE

	Actual	Projected		
	Year ended 31 December 2000 LE millions	Year to 31 December 2001 LE millions	Year to 31 December 2002 LE millions	Comments and main issues
Turnover	92	168	95	In 2001 LE 105m represents non-Toshiba inventory resold to supplies at 10% loss. The remaining LE 60m is represented by prospective contracts which TMSE is confident of success. LE 12m turnover for 2001 Q1, the majority of turnover tends to fall in 4th quarter. Included in Provisions are contingencies of LE 6m in 2001 and LE 9m in 2002.
Gross profit percentage	37%	6%	33%	
Gross profit	**34**	**9**	**32**	Gross Profit in 2001 affected by loss of LE 11.7m on resold inventory.
Overheads	(9)	(8)	(7)	
Other income	0	0		
Provisions	(44)	(6)	(9)	Contingency provisions (see above)
Capital gain	0	0	0	
Profit/(loss) before interest and taxation	**(19)**	**(5)**	**16**	
Interest expense (net of income)	(22)	(20)	(11)	Interest on local bank loans (LE18m) net of interest income on cash balances. By end 2002 LE 60m of cash balances are assumed
Taxation	0	0	0	
Profit/(loss) retained	**(41)**	**(25)**	**5**	

VI Projected results (continued)

Summary of results – TMSE (continued)

- TMSE's projections assume reduced sales for 2001 and sales similar to 2000 for 2002. The 2001 projections are supported by a list of prospective orders that TMSE are confident of securing.
- The contingencies for 2001 of LE 6 million and LE 9 million for 2002 are equivalent to a revenue shortfall of LE 20 million in 2001 and LE 30 million for 2002, i.e. a turnover in 2001 (excluding resold stock) of LE 40 million. Turnover for the 1st quarter was LE 12 million; however, traditionally sales are strongest in the 4th quarter.
- Margins have been assumed at 30% (excluding the loss on resold equipment). Margins are higher on the International business.
- Of the 2001 loss LE 11.5 million is in respect of the resale of the surplus inventory. This was purchased against anticipated Medequip business that did not proceed.
- Overheads cost savings have been implemented and further are planned for 2001.

VI Projected results (continued)

Summary of results – IIC

	Actual	Projected		
	Year ended 31 December 2000 LE millions	Year to 31 December 2001 LE millions	Year to 31 December 2002 LE millions	Comments and main issues
Turnover	57	80	87	Detergent business operates in growing market. IIC focusing on growing Economy sector of market where less competition from major brands. Main threat to IIC's business is shortage of key raw materials as supplier favoured export market over local.
Gross profit percentage	13%	17%	17%	
Gross profit	8	13	15	Main threat is increased cost of imported materials due to currency depreciation. Programme of cost reduction measures being implemented in factory to offset raw material price increases.
Overheads	(3)	(3)	(3)	
Other income	0	0	0	
Provisions	(3)	0	0	
Capital gain	0	0	0	
Profit/(loss) before taxation	2	10	12	
Interest inc. financing expense (net)	0	1	2	
Taxation	0	0	0	
Profit/(loss) retained	2	11	14	Dependent upon achievement in growth in Turnover.